

# *Fauquier County Government & Public Schools*



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**To the Honorable Chairman and Members of the Fauquier County Board of Supervisors, Chairman and Members of the Fauquier County School Board, and Citizens of Fauquier County, Virginia:**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of Fauquier County for the fiscal year ended June 30, 2005. The *Code of Virginia* requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of audited financial statements presented in conformity with accounting principles generally accepted in the United States (GAAP) as established by the Governmental Accounting Standards Board.

This report consists of management's representations concerning the finances of Fauquier County. Consequently, responsibility for both the accuracy of the data, and the completeness and reliability of the information presented in this report rests with management. To provide a reasonable basis for making these representations, County administration has established a comprehensive internal control framework that is designed both to protect the assets of the County from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits obtained. To the best of our knowledge and belief, this financial report is complete and accurate in all material respects.

The County's financial statements have been audited by the firm of Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants, as required of the *Code of Virginia*. The audit was conducted in accordance with generally accepted auditing standards and the Independent Auditors' Report is included in the Financial Section of this report. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and

evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the Financial Section of this report.

The independent audit of the financial statements of the County was part of a broader federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The reports are presented in the Compliance Section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The County's MD&A can be found in the Financial Section of this report immediately following the report of the independent auditors.

## **Profile of Fauquier County, Virginia**

Fauquier County (County), incorporated in 1759, is located approximately 40 miles west of the Nation's Capital in northern Virginia, and covers approximately 660 square miles. The County has a population of 61,500. Fauquier County completely surrounds the towns of Warrenton, Remington, and The Plains. The County provides certain governmental services, such as public education, to the towns' residents pursuant to agreements with such towns. Property in these towns is subject to both town and county taxation.

Fauquier County operates under the Board of Supervisors/County Administrator form of government, as defined under Virginia law. The governing body of the County is the Board of Supervisors, which makes policies for the administration of the County. The Board of Supervisors consists of five members representing the five magisterial districts in the County: Cedar Run, Center, Lee, Marshall, and Scott. The Chairman of the Board of Supervisors is elected from within the Board of Supervisors and serves generally for a term of one year in addition to being a District Supervisor. The Board of Supervisors appoints a County Administrator to act as the administrative head of the County. The County Administrator serves at the pleasure of the Board of Supervisors, carries out the policies established by the Board of Supervisors, and directs business and administrative procedures within the County government.

The County provides a full range of services to its residents, including education, public safety, court services, solid waste disposal, community and economic development, parks

and recreational activities, public libraries, social services, and general administration. All moneys required to support these services are reflected in this report.

Fauquier County is financially accountable for a legally separate school district, which is reported separately within the financial statements as a component unit. The Fauquier County Public Schools (FCPS) is the single largest service provided by the County. The elected School Board is composed of five members, who represent the five magisterial districts. The School Board appoints a Superintendent to administer the policies of the School Board. The school system is comprised of two high schools, five middle schools, ten elementary schools, and one alternative school. The fifth middle school was completed in fiscal year 2005, and opened in August 2004. The combined enrollment as of June 2005 totaled 10,752 students. The mission of the FCPS is to cultivate the ability, intellect, and character of each student to ensure an educated citizenry.

The annual budget serves as the foundation for the County's financial planning and control. County departments and agencies begin their budget preparation each year in August. In November, all agencies submit their appropriation requests for the fiscal year commencing the following July 1<sup>st</sup>. Prior to March 30<sup>th</sup> each year, the County Administrator submits a proposed operating and capital budget. The operating and capital budgets include proposed expenditures and the means of financing them. Public hearings are conducted to obtain citizen comments. Prior to June 30<sup>th</sup>, the budget is legally enacted through passage of an Appropriations Resolution. The Appropriations Resolution places legal restrictions on expenditures at the department level. Budget-to-actual comparison is provided in this report for the major funds in Exhibits 7 and 14.

The Code of Virginia requires the appointed Superintendent of the FCPS to submit a budget to the County Board of Supervisors with approval of the School Board. In late December the Superintendent submits a budget plan to the School Board for review. During the month of January the School Board discusses the budget plan in a series of work sessions and public hearings. In February, the School Board adopts its requested budget and forwards it to the County for inclusion in the County Executive's proposed Budget plan. The County Board of Supervisors reviews the School Board's budget during the month of March, and determines the level of funding for the Schools by the end of the month. If the requested level of funding is approved, there are no further actions taken by the School Board. If the funding approval is less than requested, the budget is reworked by the FCPS staff in coordination with the School Board to develop and adopt a revised budget. The approved budget is the basis for operating FCPS in the next fiscal year.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Fauquier County operates.

## **Local economy**

The local economy is tied to the regional Washington D.C. metropolitan area, and the area's economic performance was superb over the last year. Job growth in the metropolitan area continued to be among the nation's best, driven, in part, by robust Federal spending, which accounts for about 1/3 of the region's economy, strong consumer spending and a very positive economic environment. The metropolitan area should continue to prosper in the year ahead as the factors that influenced the past year remain largely unchanged.

Fauquier County's Board of Supervisors has defined in the County's mission statement that the Board seeks, within the bounds of fiscal integrity, to preserve the physical beauty, historical heritage and environmental quality of the County. While population growth in surrounding jurisdictions was over 5% in 2005, Fauquier County's saw its population increase by 1,100 or 1.8% to 61,500 during fiscal year 2005 recognizing the County's stabilizing focus on long-term planning.

In fiscal year 2005, the County's unemployment rate continued to remain low at 2.5% comparing favorably with the State of Virginia's average of 3.5%, and the national average of 5.3%. In fiscal years 2004 and 2005, the assessed value of real estate increased by 4.3% and 4.4% respectively. The number of residential building permits increased by 11.8% and 8.2% respectively in 2004 and 2005 while commercial construction permits increased by 6.8% during 2005 after a decrease in fiscal year 2004. The Board of Supervisors and the Planning Commission of Fauquier County have in place a 20 year Comprehensive Plan to ensure adequate planning as the County continues to grow. The plan acknowledges the importance of balancing agriculture, urban development, and conservation uses.

Building activity remains robust; and growth in the County continues as the population expands. A 10% increase in business licenses issued, and an 8.9% increase in business taxes paid demonstrates continued expansion. With an increasing population base, Fauquier County has enjoyed the addition of a range of new businesses. The retail sector experienced the highest growth with nationally recognized stores such as Panera Bread, Staples, Starbucks, Walgreens and Borders. In 2003, the Fauquier County Board of Supervisors established a Tourism Development component of the Department of Economic Development which has begun to play an increasingly significant role in the business growth of the County. In the first year, tourism represented the third largest economic sector in Fauquier County. The most rapidly growing tourism business sector has been the winery business which has expanded the tax base while helping to preserve the agricultural nature of Fauquier County.

## **Long-term financial planning**

It is the County policy to balance the need for public facilities, as expressed by the countywide land use plan, with the fiscal capability of the County to provide for those

needs. The ten-year Capital Improvement Program (CIP) submitted annually to the Board of Supervisors is the vehicle through which stated need for public facilities is analyzed against the County's ability to pay. The ten year capital plan contains 22 construction projects including four new schools, 3 expanded or renovated schools, one sewer project, one aquatics facility, two libraries and several infrastructure and renovation projects totaling over \$163.4 million.

To meet these future challenges, the county has developed a ten year Financial Plan with multi-year projections of revenues and expenditures. The County has acquired a Fiscal Impact Model. This model is now in the final stages of refinement and is expected to be implemented in fiscal year 2006. The purpose of this model will be to assist policy makers and staff to foresee future needs including projected growth and the impact of a growing school age population.

### **Relevant financial policies**

In fiscal year 2003, the Board of Supervisors adopted a fund balance policy for the County's General Fund. The policy sets the minimum undesignated, unreserved fund balance for the General Fund of not less than ten percent (10%) of General Fund revenues, providing for enhanced financial planning and stability. At June 30, 2005 the undesignated, unreserved fund balance in the General Fund was 10.9% of the fiscal year 2005 general revenues.

In addition, the County has established a policy to limit debt service to no more than ten percent of general revenues. For the fiscal year ended June 30, 2005, debt service was 6.75% of general fund revenue.

The County has also established a debt referendum policy, requiring projects costing in excess of \$10,000,000 be subject to voter referendum. In the event the debt service limitation of 10% has been exceeded, the voter referendum threshold shall be lowered for new facility construction projects costing in excess of \$2,000,000. In October 2005 the Board of Supervisors approved an increase to the voter referendum amount to \$25,000,000.

### **Major initiatives**

A new high school borrowing was approved by bond referendum in fiscal year 2005 in the amount of \$39.6 million to partially fund the new high school. The total cost is expected to exceed \$50.0 million to build and approximately \$5.0 million annually to operate. The third high school is expected to be open by FY 2009.

To lessen the impact on services from residential growth, the County established a Conservation Easement Service District (CESD) Fund for the purchase of property development rights. It is hoped the CESD program can be expanded in future years to help maintain the rich, cultural heritage of Fauquier County and slow future demands for services and service-related costs due to development.

## **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Fauquier County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one (1) year only. Fauquier County has received a Certificate of Achievement consecutively for the last seven (7) years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for consideration.

The GFOA has also awarded its Distinguished Budget Presentation Award to Fauquier County for fiscal year 2004. Fauquier County has received this award for nine years.

## **Acknowledgements**

This report was prepared by the professional staff of the Finance Department. Their hard work, dedication and continuing efforts to improve the quality of this report directly benefit all who read and use it. We also acknowledge the cooperation and assistance of the staff of the School Board, County Treasurer, the Commissioner of the Revenue, and the many other County departments and agencies which contributed to preparation of this report.

This Comprehensive Annual Financial Report reflects the commitment of the Board of Supervisors and County administration to the citizens of Fauquier County and the financial community to provide information in conformance with the highest standards of financial accountability.

Respectfully submitted,



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Paul S. McCulla  
County Administrator



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Vivian A. McGettigan, MBA, CPA, CPFO  
Finance Director